



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 5/23/2008

GAIN Report Number: CH8037

China, Peoples Republic of

Cotton and Products

Annual

2008

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Report Highlights:

China's cotton imports are forecast at 3.7 million metric tons (MMT) in marketing year (MY) 08/09, up from an estimated 2.7 MMT in MY07/08. This import increase is based on expected growth of cotton use and a slight decline in domestic production due to a reduction in the planted area in response to higher returns from grain crops. Cotton consumption is forecast at 11.8 MMT in MY08/09, up five percent from the previous year. This relatively low growth is attributed to a combination of factors, mainly the appreciation of the Chinese currency, that are limiting growth in the textile sector. The supply and demand gap continues to expand and is unlikely to be met by domestic production, thus cotton exports to China will remain strong in the foreseeable future. In MY08/09, the United States will continue to face fierce competition from India, which will likely expand its market share in China.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Beijing [CH1]
[CH]

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Executive Summary

China's cotton imports are forecast at 3.7 MMT in MY08/09, one MMT higher than the estimated 2.7 MMT in MY07/08. The increase to the import forecast is mainly attributable to a slightly smaller domestic production of 7.7 MMT (compared to the 7.8 MMT in the previous year) and expected growth in consumption. Due to anticipated higher returns from grain crops, the domestic cotton planted area in MY08/09 is forecast at 5.8 million hectares (MHa), slightly down from the 5.9 MHa in the previous year. The Government of China (GOC)'s policy continually favors grain crops because of the limited availability of arable.

Cotton consumption in MY08/09 is forecast at 11.8 MMT, up five percent over the previous year, while the consumption growth in MY07/08 is estimated at four percent. The low yearly growth rate is the result of a combination of factors that have been adversely impacting China's textile industry since 2007. These factors include the additional appreciation of the Chinese currency and reduced export tax rebate, increased production costs (labor and inputs), and a tight credit policy are expected to further squeeze profit margins of the sector in MY08/09. However, China's cotton demand is expected to continue growing in the near future. Cotton use is expected to be driven by China's massive textile industry (with an estimated 100 million spindles), the growing domestic demand for textile/apparel products, and the growing exports subject to readjustment of product mix.

Because the supply and demand gap is expected to continue to expand and is unlikely to be met by domestic production, cotton exports to China will remain strong in the foreseeable future. In the interest of protecting cotton farmers and supporting the development of the textile industry, the GOC is expected to maintain the current trade policy on cotton imports, including the Tariff Rate Quota (TRQ) and the variable tariff rate regime, and to continue to regulate the domestic supply and demand through the purchasing and sale of a state cotton reserve.

The lack of an official balance sheet for China's cotton market remains unchanged. However, the results of China's 2nd National Agriculture Census (2nd Ag Census) and the on-going cotton classification reform are likely to facilitate adjustments to domestic production estimates.

Production

China's cotton production for MY08/09 is forecast at 7.7 MMT, down from an estimated 7.8 MT from MY07/08. This decrease is based on a slightly smaller planted area with yields remaining similar to the previous year. China's cotton planted area increased in 2006 and remained stable in 2007 mainly due to comparative revenue versus other crops (The area estimate/forecast in this report is adjusted in line with the 2nd Ag Census results). However, in response to skyrocketing prices for competing grain and oilseed crops in some cotton-producing regions in 2006 and early 2007, the cotton planted area in some provinces is expected to decline slightly (See Table 15 for planted area and production by province). The GOC's 2008 policies also favor grain crops for grain security and to safeguard against the sudden increase in grain prices. Though forecasts made by various national and provincial government agencies are not in agreement, considering all sources, Post favors the notion that the total cotton area is likely to decline slightly. Below are some of the influential conclusions published by some of the most prominent organizations in China's cotton production, research, and analysis.

Planted area

Based on the planting intention survey conducted in January 2008, the China Cotton Research Institute (CRI) forecast planting intentions for MY08/09 will decline by one percent. CRI conducts annual cotton planting intention surveys on fixed households. The current survey covered 3,956 cotton producing households in the 136 leading cotton-producing counties nationwide. The survey also indicates that most of the interviewed farms will maintain a similar cotton area versus the previous year in the three major cotton-producing regions (see the following table). The survey also indicates that the national average seed cotton price from September 2007 to January 2008 is 20 percent higher than the previous year. The majority (87 percent) of surveyed farmers in the Northwest Region reported unchanged planting intentions in MY08/09, while the same survey results for the non-Northwest regions was 60 percent. CRI argued that a stable planting intention for most of China's cotton farmers is attributable to the increase in seed cotton prices in 2007, while the total area decline is in response to an anticipated higher purchasing price for grain and oilseeds based on skyrocketing prices for grain and oilseed products and increased subsidies for grain and oilseed crops.

CRI 2008 Cotton Planting Intention Survey Results

	No. of counties	No. of households	Planting intention			Intention change %
			Unchanged	Increase	Decrease	
Nation	136	3,956	2512 (63.5%)	635 (16.1%)	809 (20.4%)	-0.9
Non-Northwest	117	3,453	2,073	595	785	-1.9
--Yangtze River Region	51	1,734	1,086	302	346	-1.3
--Yellow River Region	61	1,,549	828	284	437	-0.3
--Other	5	170	159	9	2	+0.9
Northwest Region	19	503	439	40	24	+1.7

In Mid-March 2008, the China Cotton Association (CCA) released the MY08/09 cotton planting intention survey conducted in February 2008. It showed a two-percent increase based on results from 1,911 cotton farmers in 13 cotton-producing provinces. The planting intention is generally stable in the Northwest Region, but increases are expected in the eastern and central provinces including Hubei and Anhui, and a decline anticipated in Jiangsu Province. Relatively high cotton prices and returns in 2007 have given farmers confidence in planting cotton. Post's joint field study with CCA in Hebei Province and Tianjin Municipality showed a stable to declining cotton planting intention. The farmers interviewed in Hebei reported smaller cotton planted area as compared with the previous year. Farmers complained that soaring prices for agriculture inputs and higher labor inputs for cotton planting due to increased outbreak of cotton diseases have resulted in lower profit margins as compared to grain and oilseed crops.

The largest producer, Xinjiang province, will maintain a stable planted area as the "unchanged" planting intentions are partly due to the lack of alternative crops. According to the Xinjiang Statistics Bureau, the 2007 planted area was 1,380 thousand hectares (this is not adjusted according to the 2nd Ag Census). Cotton contributed US\$ 37 (RMB260) out of the total US\$57 (RMB400) income growth for farmers in 2007. Post's field study also showed Xinjiang's MY08/09 cotton area is likely to remain the same as the previous year.

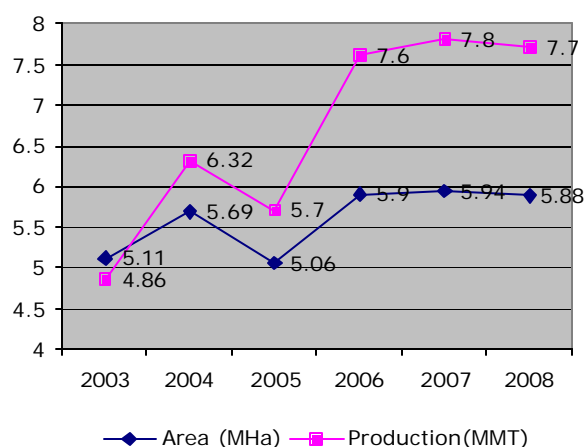
China's Ministry of Agriculture (MOA) has not released the cotton planting intention survey results, however, they have set the target area at 5,533 thousand hectares (83 million Mu) for MY08/09 (Note: this area estimate is not adjusted according to the 2nd Ag Census results).

MOA stressed that it prefers to maintain a stable cotton area and increase farmers' profits through advancement in technology and productivity.

The GOC's agriculture policy continues to favor grain crops, although cotton planting seed subsidies are expected to continue. As reported in GAIN CH7033, starting in 2007, MOA appropriated US\$72 million (500 million Yuan) to cotton planting seed companies to subsidize "high quality varieties" at US\$32 per hectare (15 Yuan/Mu) (GAIN CH7033). Industry sources reported that this subsidy will continue in 2008 with the same amount and distribution plan that will cover an estimated 2.25 MHa of planted area in major cotton-producing regions. However, the GOC's subsidy to grain crops increased further in 2008 and is much higher than that of cotton. Grain farmers received a direct subsidy, an agriculture input subsidy of US\$137 per hectare (RMB64 per Mu) and, subsidies for purchasing large agriculture machinery.

China's National Statistics Bureau (NSB) adjusted the cotton planted area for 2006 and 2007 based on the 2nd Ag Census results. Most industry insiders believe NSB data was grossly under-reported in the recent years. In addition to the difficulties in estimating the planted area for thousands of small cotton households, some relevant local government agencies tend not to include newly added area into statistics for various reasons. For instance, in response to the price/profit changes and irrigation conditions, some land may occasionally used to plant cotton. In a recent meeting with NSB, the relevant officials informed Post that the cotton planted area appeared to be under-reported in 2006 and 2007 based on the 2nd Ag Census results. Most notably, the revisions include the total planted area in Xinjiang which is now revised 400,000 hectares higher than what was reported before, while area for other regions was said to be over-reported by 130,000 hectares. Although NSB released (in February 2008) a report indicating that the 2007 cotton area was 5.59 MHa, total area will likely exceed 5.86 MHa if the 2nd Ag Census results are taken into consideration. In mid-May 2008, NSB published the 2008 China Statistical Abstract with an adjusted cotton planted area of 5.82 MHa and 5.92 MHa for 2006 and 2007, respectively. Based on all available information, Post estimates the cotton planted area at 5.94 MHa in MY07/08 and forecasts MY08/09 area at 5.88 MHa, down one percent from the previous year.

Chart 1. China's cotton planted area and production from 2003 to 2008



Note: 2007 data is Post estimate and 2008 data is Post forecast
Area/production data before 2006 sourced from NSB

Yield

China's cotton yield reached a record of 1,312 Kg/Ha in MY07/08. The continual improvement in yields is mainly attributable to technical advancements in Xinjiang production and in the dissemination of Bt cotton varieties in the Yangtze and Yellow River regions. A sustained period of favorable weather conditions in most cotton producing regions has also supported recent improvement to yields. Post forecasts that the yields in MY08/09 are likely to remain near record levels at 1,311 Kg/Ha.

The coverage of Bt varieties is expected to increase further in MY08/09 mainly supported by the new seed subsidy policy. According to industry sources, the area planted to Bt cotton varieties was estimated to exceed 3.5 MHa (85 percent of the total planted area in the Yangtze and Yellow River regions in MY06/07). Some experts believe that Bt variety coverage reached 100 percent in Henan, Hebei, Shandong and Anhui provinces. Industry experts estimate that the planting of Bt varieties generally improves yields by at least 10 percent compared with conventional seeds and reduces the need for chemical sprays and labor inputs by 60 percent and seven percent, respectively. The newly implemented seed subsidy policy is likely to increase area coverage of "high quality varieties", mostly Bt varieties. According to CRI's survey results, the number of planted cotton varieties in 2006 increased but the area coverage for each variety was low. Only 53 varieties were planted, each with area coverage at 0.5 percent or more of the total planted area and the most widely planted variety reached 5.9 percent.

In Xinjiang, Bt varieties are reportedly not planted due to fewer outbreaks of diseases/pests. The development of conventional varieties with specific traits such as dwarf plant size and early maturity are expected to continue boosting yields. In addition, new agronomy practices including high density sowing, plastic sheet covering and drip irrigation technology contribute greatly to higher yields. These advancements are particularly significant for Xinjiang Production and Construction Corporation (PCC) farms. Industry sources reported that the drip irrigated cotton area accounted for 80 percent of the PCC planted area. The averaged yield in Xinjiang exceeded 1,710 Kg/Ha in MY06/07. The MOA seed subsidy covers 63 percent of Xinjiang's planted area and will enhance farmer confidence in cotton production.

NSB adjusted domestic cotton production based on the 2nd Ag Census

Domestic cotton production has been under-estimated for the past few years mainly due to the complexity of area estimate and lint ratio. According to NSB, the results of the 2nd Ag Census conducted in 2006 show that the national total cotton planted area was under reported by about 267,000 Ha, with Xinjiang under-reported by 400,000 Ha while other regions over reported by 133,000 Ha. The under-reporting in Xinjiang reflects a very complicated attitude towards cotton data by various levels of the local governments. Additionally, the yearly area estimate is also a difficult task as some marginal land may not be included in the annual statistics due to several factors such as irrigation and relative per unit profit. The over-reporting in other regions, however, indicates the complexity of statistics among the millions of small households with a mix of several crops. The 2nd Ag Census results also show the lint ratio is under-estimated by four percent on average in most cotton-producing provinces except Xinjiang. NSB explained that due to advancement of agriculture and ginning technology, the current lint ratio ranges between 37 to 38 percent instead of the 33 to 34 percent used in past statistics. In Xinjiang, the lint ratio remains unchanged at 38 percent.

In mid-May 2008, NSB published the 2008 China Statistical Abstract with adjusted cotton production at 7.53 MMT and 7.62 MMT in 2006 and 2007, respectively. However, NSB did

not make adjustments to its official production data in the years prior to 2006. Some industry leaders estimated total un-reported cotton could reach up to 2.7 MMT from 2002 to 2005. In analyzing all available information, Post believes the domestic production in MY06/07 is likely to be 7.6 MMT, based on 38 percent lint ratio for all other cotton regions except Xinjiang and the adjusted area. As such, Post made production estimates for MY07/08 at 7.8 MMT and forecast for MY08/09 at 7.7 MMT.

Consumption

China's cotton consumption for MY08/09 is forecast at 11.8 MMT, five percent greater than the revised estimate 11.2 MMT for MY07/08. This growth rate is lower than that in the past three years. A combination of negative factors including the appreciation of the local currency, coupled with a reduction to the export tax rebate and tight credit policies is expected to slow down the growth of cotton use in 2008. However, in the long term, cotton consumption is expected to grow mainly driven by domestic textile consumption and continued export growth.

China's textile industry has developed rapidly since China's accession to the WTO, but the growth rate is likely to level off in the next few years. According to industry sources, fixed asset investment in the textile industry reached US\$35 billion (RMB255.2 billion) in 2007, up 26 percent over the previous year. This growth rate is slightly smaller than the 27 percent increase in 2006. The GOC's macro-economic control policy since 2007 restricted excessive investment in the sector. Although the eastern and southern regions accounted for 65 percent of the new investment, the central and western regions had higher investment growth rates at 54 and 33 percent, respectively, as compared to the 16 percent in the eastern and southern regions. This indicates that the industry continued to move to the central provinces in 2007 in search of lower labor inputs and favorable environmental and financial policies. Industry sources estimated the total spindle count at 100 million, as of the end of 2007.

The textile industry will remain one of China's "pillar industries". According to China's 11th Five Year (2006-2010) Plan for Development of the Textile Industry, total fiber production is forecast to reach 36 MMT by 2010, with an annual growth rate of six percent. Moreover, per capita fiber consumption is expected to rise from 16.8 kg to 18 kg, an annual growth rate of 6.7 percent. Employees involved in this sector are forecast to reach 23 million, up from the current 20 million.

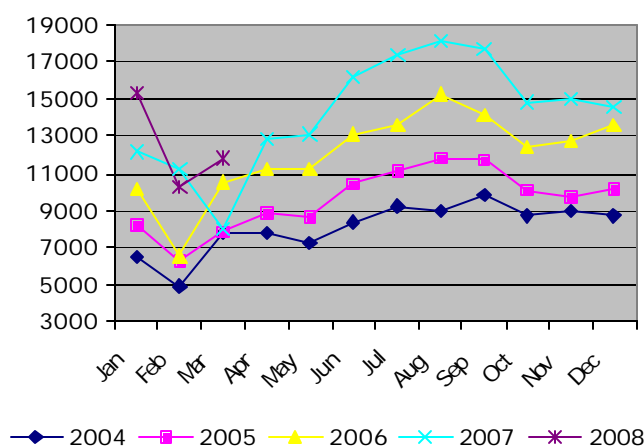
Sales of textiles and apparel are increasingly driven by domestic consumption resulting from increased disposable income and population growth. According to NSB, the per capita expenditure on clothing by urban residents is 5.4 times that of rural people in 2006. Thus, urbanization in China has a clear impact on the textile industry. Nevertheless, as rural incomes rise, better clothing will be high on the list of new purchases for China's 700 million rural residents. In 2007, the sales of textile/apparel products in the domestic market maintained a growth rate of over 20 percent. Total share of sales value in the domestic market continued growing in 2007, accounting for 75 percent of the industry output.

Based on industry statistics, China's textile and apparel exports for 2007 reached US\$175.6 billion, up 19 percent over 2006. However, this is lower than the 25 percent growth in the previous year. The trade surplus for the textile sector in 2007 was estimated at more than US\$156.8 billion, accounting for 60 percent of the year's national total. The price index for textile and apparel products increased by four percent and 10 percent, respectively, attributed mainly to the growth in export value. Exports for the first three months of 2008

were valued at US\$37.4 billion, up 19 percent over the same period of the previous year (See chart 3).

The textile/apparel product export growth is difficult to remain in the next months of 2008. According to the China Textile Industry Association (CTIA), although the average profit margin for the whole sector stood at slightly less than four percent in 2007, more than 68 percent of textile enterprises averaged profit margins less than one percent. Another way of explaining this phenomena is that one third of the enterprises contributed 91 percent of the sector's profit. The industry's profit margins continued declining for most enterprises in the first months of 2008. The China Textile and Apparel Product Import/Export Association estimated that the 2008 export growth rate at 13 percent. Industry sources consider the appreciation of the Chinese currency, which accelerated in the first quarter of 2008 up by four percent as compared to the seven percent for the whole year in 2007, the main factor in reducing typical double-digit growth rates. The reduced export tax rebate enforced in 2007 continued to squeeze profit margins in 2008. Additionally, the production costs (labor and energy and inputs) increased by more than five percent. Chinese industry experts estimated that the general production cost increased by more than 10 percent in 2008. Many export-oriented enterprises experienced reduced orders in recent months due to fierce price competition. In summary, all these factors are expected to restrict the growth of the industry and cotton use in MY08/09.

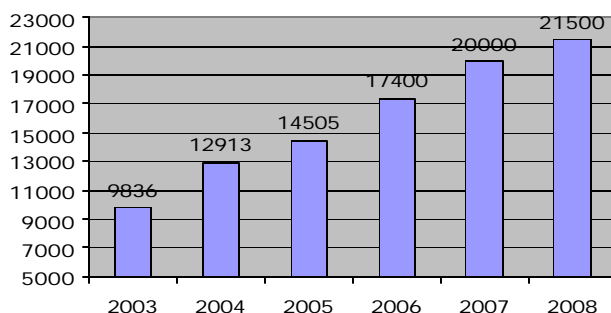
Chart 3: China's Textile & Apparel Monthly Exports from 2004-2008
(Million US dollars)



Source: Cncotton.com

Yarn production is forecast at 21.5 MMT in 2008, up 7.5 percent over 2007. Yarn production reached 20 MMT in 2007, up 15 percent over the previous year. The average yearly growth from 2003 to 2007 was 23 percent. Yarn production for the first three months of 2008 is estimated at 4.6 MMT, up less than 10 percent over the same period in 2007. In consideration of all current negative factors impacting growth of the textile industry, yarn production in the coming months will likely maintain below 10 percent.

Chart 4: Chinese Yarn Production 2004-2008



Note: 2008 data forecast by Post

Converting yarn production into cotton use remains a challenge, as mills constantly change the cotton ratio in yarn production based on market demands and price ratios between cotton and man-made fibers. For example, a percentage variation in the cotton share will drastically alter cotton consumption by about two hundred thousand metric tons. According to the China Chemical Fiber Industry Association, total chemical fiber production stood at 23.9 MMT in 2007, up 18 percent over the previous year. The volume used for spinning was estimated at 8.7 MMT. A National Development and Reform Commission (NDRC) report dated February 2008 maintained that cotton's share of yarn production is approximately 55 percent in contrast to the 60 percent figure in previous statistics. As for the net waste (trash not suitable for spinning), some mills reported that this ranges between 3 to 5 percent, instead of the usual 6 percent used by many industry sources.

The high global crude oil price is likely to increase cotton's ratio in yarn production in MY08/09. The current price for man-made fiber is about US\$428/MT (RMB3,000 Yuan/MT) lower than cotton. Historically, the cotton price is approximately 20 percent higher than the price of polyester fibers. Industry experts expect that, along with the sharp price rise of crude oil, the share of man-made fiber in yarn production may decrease slightly in 2008.

Trade

MY08/09 imports are forecast to surge to 3.7 MMT, up 37 percent from the estimated 2.7 MMT in MY07/08. This massive increase to the import forecast is based on a slightly smaller domestic production coupled with an increase in consumption. More imports are the only way to meet the expanding supply/demand gap because domestic production growth remains limited.

Despite the drop in cotton imports in MY06/07, the United States continued to be the largest import origin, followed by India and Uzbekistan, accounting for 42, 23 and 11 percent of the total, respectively. However, this changed significantly in MY07/08 with rapid increase in share for Indian cotton. As of March 2008, total imported volume from India reached 560,000 MT (35 percent), approaching the 633,000 MT from the United States (40 percent). This new trend is expected by some industry insiders as a result of a large India crop. The relatively cheap price and convenient delivery also makes Indian cotton a competitive product in China's market. India traders are actively engaged in promoting cotton in China. More than fifty Indian traders participated in the 2008 China Cotton Industry Summit held in May in Hangzhou, China. India cotton production is likely to continue growing in the coming years along with the advancement of technical expertise and the dissemination of Bt cotton. Although cotton originated from the United States remains the best choice for Chinese users based on quality and reliability of supply, it is expected to face fiercer competition from Indian cotton in the next few years.

Consignment trade is likely to recover in MY08/09. Since 2004, increased consignment trade has alleviated the impact of a declining stocks-to-use ratio. In 2007, consignment trade became less active as a result of reduced demand for imported cotton. It is widely expected that most Chinese enterprises, in particular the medium and small-scale mills will take a "hand to mouth" purchasing pattern in MY08/09. Consignment trade has advantages such as short delivery time, flexibility, and convenient quality verification. Industry insiders expect more domestic buyers will choose consignment trade as a way to alleviate financial difficulties.

The CCA Cotton Trade Rules (applied to cotton imports only) were published in April 2006 to replace the "China Textile Trade Rules". The new rules highlight contract and quality fulfillment and liability. A "black-list" system was established to encourage self-regulation and strengthen the principle of contract sanctity. CCA "blacklisted" one foreign trader in 2007 (<http://www.china-cotton.org/english/enevsshow.php?articleid=161>). Along with increased imports from India, there were increased complaints about the non-compliance of contracts. China's end-users reported problems about Indian cotton such as weight shortages, non-compliance to the contracted quality, and contamination.

Stocks

Stocks remain difficult to estimate. China still has not established an official cotton market information system although several relevant agencies are trying to develop supply and demand balance sheets. The lack of transparent and reliable data (production, consumption and stocks) is particularly true in recent years due to a rapid expansion and diversified scales of production and quality. The numerous players and diversified ownership in the industry chain, including the millions of cotton farmers, gins, merchants and mills, make the collecting of reliable production statistics an extremely difficult task.

Based on the 2nd Ag Census, NSB adjusted the domestic cotton production upward for 2006 and 2007. As mentioned above, the major justification is under-reported planted area and under estimated lint ratios by province. However, production data before 2006 is yet to be re-calculated. Some industry leaders believe total cumulative under-reported production from 2002 to 2005 could reach 2.7 MMT. More time may be needed to justify these new statistics indexes (area and lint ratio). However, in general, the 2nd Ag Census results provide a base for the domestic production estimate, and will inevitably alleviate the burden of analyzing the supply/demand situation for MY08/09 and beyond.

Experts believe that NSB yarn production statistics and man-made fiber availability are relatively unreliable compared with import and export statistics. Although converting yarn production into cotton use remains a challenge, the total man-made fiber availability for spinning in the same period does help in deducing the necessary cotton use.

Based on the above assumptions, Post added about 2.7 MMT of underestimated domestic production to the beginning stocks of MY06/07 and removed all residual loss from MY06/07 and thereafter in the current PSD table. The forecast ending stocks for MY08/09 are 2.4 MMT with the stock-to-use ratio at 20 percent. The forecast recovery of "consignment trade" may justify a relatively low stock-to-use ratio in MY08/09 (See GAIN CH7033).

Policy

Seed Subsidy Continued in 2008

In 2007, the GOC began to subsidize cotton production through a multi-year “seed subsidy” program. MOA appropriated a total of US\$ 72 million (RMB500 million) to cotton seed producers/traders. Based on industry sources, the same amount of funds was appropriated to cotton-producing provinces to cover 2.25 MHa of the planted area according to a distribution plan similar to the previous year (GAIN CH7033). The subsidy is allocated to large seed producers/traders for selected “high quality varieties” through an open bidding process. The rate is approximately US\$32 per hectare (RMB15 per Mu). Based on industry sources and Post’s field study, it appears the funds have been distributed efficiently.

Initiated by MOA and supported by the China Textile Industry Association (CTIA), the seed subsidy policy is aimed at stabilizing planted area. It is also expected that cotton quality will be more uniform because of selected “high quality varieties” (seeds eligible to be subsidized) are likely to increase in area coverage. Given the increasing cotton supply gap and the importance placed on maintaining a stable planting area, this policy is likely to remain in place in the foreseeable future.

Transportation of Xinjiang cotton likely to be subsidized in 2008

According to industry sources, the GOC decided to provide a transportation subsidy for the shipment of cotton out of Xinjiang, effective in late May or June 2008, although no details have been released on how the subsidy will be implemented or the volume to be subsidized. The shipment of outbound Xinjiang cotton is generally hindered by a shortage of railcars. This situation worsened in MY07/08 mainly due to the snow/ice disaster in February in south China. Most industry insiders believe this subsidy is likely to remain in place in the coming years to ensure the shipment of cotton in a timely manner.

Classification Reform

China’s cotton classification reform continued in MY07/08 and is expected to move forward in MY08/09. According to the NDRC, as of the end of 2007, 1,343 gins began to renovate equipment, of which 828 completed with total baling capacity of 4.5 MMT. According to the China Fiber Inspection Bureau, 87 classification laboratories have been built with 213 HVI instruments capable of classifying 4.3 MMT. In 2007, total cotton processed based on the new classification system was more than 1.6 MMT, as compared to the 775,000 MT in the previous year. A series of measures were taken and will continue in 2008 to push the reform forward. The GOC will provide concession loans for equipment renovation to the entities engaged in the reform, large bale cotton (based on the new system) continues to be privileged in obtaining rail cars, and the state purchasing of cotton for reserve continues to favor large baled cotton. Post field studies also showed many cotton processing entities took a more aggressive approach towards meeting the reform requirement due in part to the pressure of being phased out of this fiercely competitive marketplace. Industry sources reported that the GOC plans to completely enforce the new classification system by 2010. If successful, it will facilitate generating the domestic cotton production estimates and upgrade the quality level of the ginning sector.

Tariff Rate Quota (TRQ)

The TRQ regime will remain in place for the foreseeable future as the GOC argues that the TRQ regime is necessary to regulate the market and protect the interests of both farmers and the domestic textile industry. China’s current willingness to expand the TRQ beyond its

WTO commitments should continue into the near future because the domestic production can not meet the demand of the textile industry. As usual, China distributed 894,000 MT of cotton TRQ for 2008 (subject to one percent import duty) at the end of 2007. According to industry sources, an additional 1.5 MMT of cotton TRQ (additional TRQ) was distributed to mills in mid-April 2008 without official publication. A large volume of allocated TRQ for 2007 was not used mainly because of inadequate supply/demand information. Industry sources indicated that mills/traders hesitated in applying for additional TRQ because of the current relatively low price for domestic cotton and an unpredictable textile market. Distribution and allocation of the TRQ remains non-transparent.

The GOC adjusted the tariff rate applied to cotton imports under the additional TRQ in 2008. The Ministry of Finance (MOFIN) announced that, effective January 1, 2008, the variable tariff rates for cotton imports under additional TRQ are adjusted to 5-40 percent, as compared to the former 6-40 percent enforced in 2007. The slight reduction of import duty is likely to reduce import costs in response to the increased cotton price in global market. There has not been any new progress on adjustment to Variable Tariff Rates for additional TRQ as speculated by some industry experts.

State Reserves

The GOC maintains an unknown volume of state cotton reserves used to regulate the domestic cotton market. State purchasing supports the domestic cotton price and facilitates the marketing of domestic cotton. It also enhances the ongoing classification reform by paying out a premium for large bale cotton. State cotton reserves remain a secret and are likely still a considerable amount. In January 2007, the China State Cotton Reserve Corp purchased a total 300,800 MT through open bidding at prices ranging from US\$1,788 to 1,814 per MT (RMB12,520 to 12,700 per MT). In July 2007, when cotton was in tight supply, the GOC sold 300,000 MT of state cotton reserves to meet the market demand. The state cotton reserve policy is expected to continue in the foreseeable future.

Targeted Loans

In 2007, the Agriculture Development Bank of China (ADBC) continued to provide targeted loans with favorable terms for purchasing cotton in 2007. ADBC earmarked a record US\$7.7 billion for this program, up 28 percent over the year before. According to NDRC, as of the end of March 2008, ADBC provided loans for more than 4.4 MMT of the 2007 crop, up 14 percent over the previous year. Xinxiang's loans reached a record of US\$3.7 billion covering more than 2.1 MMT of the MY07/08 crop in the province, up 13 percent over the previous year. The increase in loans is a result of the low default rates for the previous years' loans and a large crop at a relatively higher price in MY07/08. In the ADBC meeting held in January 2008, the ADBC president vowed to continue financial assistance for domestic cotton marketing in MY08/09.

Export Rebate

The tax rebate for textile and apparel exports is likely to remain unchanged in 2008. In an effort to ease trade tensions with other trade partners and the growing trade surplus, the GOC reduced the tax rebate for apparel products to 11 from 13 percent and man-made fiber to five percent from 13 percent in 2007. An earlier industry speculation suggests that this will be further reduced in MY08/09 and mainly aimed at further reducing the trade surplus. However, in March 2008, CTIA reported that two thirds of the enterprises suffered serious losses because of a combination of adverse factors including the appreciation of Chinese currency, the increase of production costs, and a tight credit policy in the financial sector. In response to the industry's call for greater policy support, the GOC conducted a field survey in April 2008 to evaluate the situation. Some measures might be formulated soon based on the

survey results. In an industry meeting held in mid-May 2008, a senior official from CTIA assured the industry that the tax rebate for textile and apparel exports will remain unchanged at 11 percent and further cuts were unlikely in the near future in consideration of the current difficult situation faced by the sector.

Marketing

The marketing of domestic cotton is expected to improve in MY08/09. Instead of focusing on regulating purchases of seed cotton, the GOC raised the market access threshold for enterprises entering cotton processing. On October 2006, NDRC and other related ministries issued Decree on "Administrative Measures for Accreditation of Eligibility of Cotton Processing and Marketing". The Decree is aimed at enhancing the management of the industry and checking its excessive expansion. The decree requested that all cotton processing entities meet certain requirements and be awarded with a "Cotton Processing License". In addition to enforcement of this decree and the classification reform, it is also expected to accelerate the consolidation of the industry. Based on NDRC's plan for the cotton processing industry, the number of gins is expected to decline to 2,400 by the end of 2009 from the current estimated 12,000. According to NDRC, as of the end of March 2008, 96 percent of the 2007 domestic crop (seed cotton) was marketed, slightly higher than the 95 percent in the previous year; 95 percent of the seed cotton was processed while 66 percent of ginned cotton was marketed, both slightly higher than the previous year.

Transporting cotton out of Xinjiang in MY07/08 was slowed by devastating storms that hit Southern China last February. According to NDRC, as of the end of March 2008, total cotton shipped out of Xinjiang reached 1.67 MMT, down by 180,000 MT as compared with the previous year. The winter storms halted transportation for several weeks. The central and local governments publically committed to making cotton shipments a priority in the remaining months of MY07/08 and in MY08/09. As mentioned above, the GOC is currently formulating a policy to provide subsidies for cotton out of Xinjiang and the detailed subsidy rules will be finalized in late May or June. This policy is expected to improve the shipment of cotton out of Xinjiang in MY08/09.

The GOC already approved some international traders to engage in domestic cotton trade. These traders, however, are taking a cautious approach to entering the domestic cotton market because of its size and complexity. There has been little intention on the market engagement of international traders in the marketing of domestic cotton.

U.S. cotton exporters interested in exporting cotton to China and want marketing advice and assistance may contact USDA/FAS's Agricultural Trade Offices (ATO) in Beijing, Chengdu, Shenyang, Shanghai, and Guangzhou. They can be contacted via email at ATOShanghai@usda.gov, ATOBeijing@usda.gov, ATOGuangzhou@usda.gov, ATOChengdu@usda.gov, and ATOShenyang@usda.gov, respectively. Cotton Council International (CCI) is also actively involved in promoting U.S. cotton in China and throughout Asia. CCI serves China regionally from its Hong Kong Office. CCI can be reached via email at cci-hongkong@cotton.org. Both CCI and the ATO's organize events designed to bring U.S. cotton exporters in close contact with Chinese buyers.

China International Cotton Conference, a biannual event sponsored by CCA, MOA and FAO, attracts a worldwide audience from the cotton/textile industry. The next conference will be in 2009. CCA, in collaboration with China National Cotton Exchange also holds an annual event - China Cotton Industry Development Forum focusing on analysis and outlook of the market situation. The 2008 Forum was held in Hangzhou/Zhejiang Province in May.

Tables

Production, Supply and Demand (PSD)

Table 1. PSD in Bales

PSD Table									
Country	China, Peoples Republic of								
Commodity	Cotton (HECTARES)1000 480 lb. Bales (PERCENT)(KG/HA)								
	2006 Revised			2007 Estimate			2008 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		08-2006	08-2006		08-2007	08-2007		08-2008	08-2008
Area Planted	0	5400	5900	0	5500	5940	0	0	5880
Area Harvested	6000	5400	5900	6100	5500	5940	0	0	5880
Beginning Stocks	20311	8073	20474	18711	8010	16274	16386	8127	12968
Production	35500	31000	34900	35000	29850	35800	0	0	35400
Imports	10588	15380	10588	12250	22970	12400	0	0	16995
MY Imports from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	66399	54453	65799	65961	60830	64311	16386	8127	65200
Exports	88	46	88	75	23	66	0	0	0
Use	50000	50500	49600	53000	56500	51440	0	0	54200
Loss	-2400	-4103		-3500	-3820	0	0	0	0
Total Dom. Cons.	47600	46397	49600	49500	52680	51440	0	0	54200
Ending Stocks	18711	8010	16274	16386	8127	12968	0	0	11163
Total Distribution	66399	54453	65799	65961	60830	64311	0	0	65200
Stock to Use %	37.35	15.84	32.42	30.87	14.37	24.86	0	0	20.29
Yield	1288	1250	1288	1249	1182	1312	0	0	1311

Table 2. PSD in Metric Tons

PSD Table									
Country	China, Peoples Republic of								
Commodity	Cotton (HECTARES)1000 MT (PERCENT)(KG/HA)								
	2006 Revised			2007 Estimate			2008 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USD A Official	Post Estimate	Post Estimate New
Market Year Begin		08-2006	08-2006		08-2007	08-2007		08-2008	08-2008
Area Planted	0	5400	5900	0	5500	5940	0	0	5880
Area Harvested	6000	5400	5900	6100	5500	5940	0	0	5880
Beginning Stocks	4422	1758	4458	4074	1744	3543	3568	1769	2823
Production	7729	6749	7599	7620	6499	7794	0	0	7707
Imports	2305	3349	2305	2667	5001	2700	0	0	3700
MY Imports from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	14457	11856	14326	14361	13244	14002	3568	1769	14196
Exports	19	10	19	16	5	14	0	0	0
Use	10886	10995	10799	11539	12301	11200	0	0	11801
Loss	-523	-893	0	-762	-832	0	0	0	0
Total Dom. Cons.	10364	10102	10799	10777	11470	11200	0	0	11801
Ending Stocks	4074	1744	3543	3568	1769	2823	0	0	2430
Total Distribution	14457	11856	14326	14361	13244	14002	0	0	14196
Stock to Use %	37.4	15.8	32.4	30.9	14.4	24.9	0.0	0.0	20.3
Yield	1288	1250	1288	1249	1182	1312	0	0	1311

Trade Tables

Table 3. China's Monthly Cotton Imports

Unit: Metric Tons					
Month	2004	2005	2006	2007	2008
January	177,400	113,076	301,372	123,092	157,712
February	291,481	70,599	321,280	125,235	158,168
March	269,209	101,487	495,049	259,846	213,221
April	290,953	169,815	490,704	215,093	
May	227,075	160,891	463,809	201,205	
June	201,312	206,024	380,674	252,460	
July	170,478	294,416	290,358	228,945	
August	107,566	373,295	285,958	258,667	
September	58,710	313,304	134,364	234,451	
October	29,148	198,167	84,985	137,031	
November	22,844	224,991	154,592	101,846	
December	59,975	347,517	240,338	322,575	
TOTAL	1,906,153	2,573,582	3,643,482	2,460,445	
Marketing Year	Aug/04-Jul/05	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08	Aug/08-Jul/09
TOTAL	1,393,551	4,200,521	2,306,112		
Unit: 480-lb Bales					
Month	2004	2005	2006	2007	2008
January	814,800	519,358	1,384,200	565,359	724,373
February	1,338,773	324,263	1,475,641	575,205	726,468
March	1,236,479	466,128	2,273,762	1,193,474	979,323
April	1,336,348	779,959	2,253,801	987,920	
May	1,042,954	738,972	2,130,276	924,135	
June	924,626	946,269	1,748,434	1,159,550	
July	783,005	1,352,252	1,333,612	1,051,545	
August	494,052	1,714,546	1,313,403	1,188,058	
September	269,655	1,439,007	617,133	1,076,833	
October	133,878	910,179	390,338	629,382	
November	104,925	1,033,385	710,040	467,777	
December	275,465	1,596,146	1,103,872	1,481,585	
TOTAL	8,754,960	11,820,464	16,734,513	11,300,825	
Marketing Year	Aug/04-Jul/05	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08	Aug/08-Jul/09
TOTAL	6,400,580	19,292,992	10,591,973		

Source: World Trade Atlas

Table 4. China's Quarterly Cotton Imports by Country of Origin

Unit: Metric Tons

Marketing Year: 2005/2006					
Country	Jul-Sep /05	Oct-Dec /05	Jan-Mar/06	Apr-Jun/06	TOTAL
United States	496,237	272,891	455,574	734,824	1,959,525
India	39,120	54,221	178,765	231,596	503,702
Uzbekistan	87,251	50,961	161,595	104,914	404,720
Australia	100,184	91,690	39,597	51,665	283,136
Burkina Faso	57,483	49,077	25,025	39,956	171,541
Benin	52,113	36,636	32,262	21,870	142,881
Mali	32,633	24,341	22,209	28,386	107,570
Brazil	4,507	43,742	38,781	3,969	90,999
Cameroon	7,898	18,673	19,549	10,654	56,775
Mexico	4,094	13,608	19,162	4,632	41,496
Other	99,495	114,834	125,182	102,722	442,234
TOTAL	981,016	770,675	1,117,702	1,335,187	4,204,579
Marketing Year: 2006/2007					
Country	Jul-Sep /06	Oct-Dec /06	Jan-Mar/07	Apr-Jun/07	TOTAL
United States	420,152	97,556	94,809	366,679	979,197
India	60,220	123,049	260,892	100,278	544,439
Uzbekistan	52,206	45,107	87,454	73,777	258,544
Australia	61,353	72,146	7,556	29,059	170,113
Burkina Faso	23,059	57,417	29,000	34,570	144,047
Cameroon	13,996	23,468	4,834	11,694	53,992
Benin	4,220	4,712	5,835	26,098	40,866
Mali	21,862	9,356	597	5,077	36,892
Zambia	6,113	10,280	716	117	17,226
Mexico	0	5,664	4,782	4,118	14,564
Other	47,497	31,160	11,699	17,290	107,645
TOTAL	710,679	479,915	508,173	668,758	2,367,525
Marketing Year: 2007/2008					
Country	Jul-Sep /07	Oct-Dec /07	Jan-Mar/08	Apr-Jun/08	TOTAL
India	55,392	216,650	295,524		567,565
United States	475,248	188,013	134,116		797,377
Uzbekistan	33,332	21,088	17,555		71,974
Burkina Faso	33,501	15,523	14,555		63,579
Mexico	4,477	12,760	14,016		31,253
Mali	10,568	6,793	13,226		30,587
Cameroon	11,651	13,173	7,491		32,315
Brazil	4,646	16,813	6,288		27,747
Australia	42,356	30,649	6,192		79,197
Benin	20,701	6,928	4,374		32,003
Other	30,194	33,060	15,765		79,019
TOTAL	722,063	561,451	529,102		1,812,616

Source: World Trade Atlas

Table 5. China's Monthly Cotton Exports

Unit: Metric Tons					
Month	2004	2005	2006	2007	2008
January	1,150	204	1,450	2,404	221
February	1,323	59	581	362	393
March	1,151	359	0	2,149	811
April	399	711	488	2,634	
May	205	509	944	932	
June	77	861	2,198	2,656	
July	1,806	810	665	1,038	
August	1,023	250	1,179	880	
September	1,044	52	1,229	835	
October	790	208	1,589	2,709	
November	172	382	1,142	2,887	
December	143	719	1,572	1,608	
TOTAL	9,283	5,124	13,039	21,094	
Marketing Year	Aug/04-Jul/05	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08	Aug/08-Jul/09
TOTAL	6,685	7,938	18,887		

Unit: 480-lb Bales					
Month	2004	2005	2006	2007	2008
January	5,281	939	6,662	11,044	1,015
February	6,075	269	2,668	1,663	1,805
March	5,285	1,650	0	9,871	3,726
April	1,834	3,266	2,241	12,100	
May	940	2,337	4,337	4,278	
June	355	3,955	10,097	12,197	
July	8,295	3,722	3,056	4,767	
August	4,700	1,148	5,417	4,040	
September	4,796	241	5,647	3,837	
October	3,627	954	7,300	12,444	
November	790	1,753	5,245	13,260	
December	656	3,302	7,220	7,385	
TOTAL	42,636	23,535	59,890	96,886	
Marketing Year	Aug/04-Jul/05	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08	Aug/08-Jul/09
TOTAL	30,704	36,459	86,750		

Source: World Trade Atlas

Table 6. China's Quarterly Cotton Exports by Destination

Unit: Metric Tons

Marketing Year: 2005/2006					
Country	Jul-Sep /05	Oct-Dec /05	Jan-Mar /06	Apr-Jun /06	TOTAL
Taiwan	0	360	0	490	849
Indonesia	296	314	55	840	1,505
Korea, South	27	181	87	261	557
Japan	504	31	430	951	1,915
Thailand	286	0	0	137	424
Hong Kong	0	416	1,280	492	2,188
Other	0	7	179	459	644
TOTAL	1,113	1,308	2,031	3,630	8,083
Marketing Year: 2006/2007					
Country	Jul-Sep /06	Oct-Dec /06	Jan-Mar /07	Apr-Jun /07	TOTAL
Japan	741	292	1,496	328	2,857
Pakistan	118	174	598	571	1,460
Taiwan	198	2,022	611	580	3,412
Indonesia	82	898	1,766	1,762	4,508
Other	1,936	917	445	2,980	6,278
TOTAL	3,074	4,303	4,916	6,221	18,515
Marketing Year: 2007/2008					
Country	Jul-Sep /07	Oct-Dec /07	Jan-Mar /08	Apr-Jun /08	TOTAL
India	88	660	514		1,262
Japan	515	1,977	294		2,786
Thailand	506	0	201		707
Vietnam	205	1,788	61		2,054
Other	1,438	2,779	356		4,573
TOTAL	2,753	7,204	1,425		11,382

Source: World Trade Atlas

Table 7. China's Monthly Cotton Yarn and Thread Imports

Unit: Metric Tons					
Month	2004	2005	2006	2007	2008
January	57,570	51,642	62,896	75,289	59,448
February	62,846	33,919	61,535	46,631	42,289
March	65,562	68,635	88,313	88,089	73,161
April	61,596	73,086	81,974	86,136	
May	54,009	67,277	75,690	83,350	
June	54,389	64,463	72,098	80,296	
July	53,176	62,159	69,185	74,507	
August	50,786	66,628	83,238	79,033	
September	58,653	65,194	75,944	64,743	
October	54,461	62,357	67,583	55,459	
November	57,615	64,206	68,989	56,936	
December	56,285	70,759	75,147	60,448	
TOTAL	686,948	750,327	882,592	850,919	
Marketing Year	Aug/04-Jul/05	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08	Aug/08-Jul/09
TOTAL	686,948	840,837	905,198		

Source: World Trade Atlas

Table 8. China's Quarterly Cotton Yarn and Thread Imports by Country of Origin

Unit: Metric Tons

Calendar Year: 2006					
Country	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	TOTAL
China	75,267	95,017	89,374	81,781	341,440
Pakistan	78,853	82,297	82,780	73,122	317,052
Taiwan	15,405	12,545	15,616	19,265	62,830
India	16,201	14,265	14,891	13,886	59,243
Hong Kong	8,433	8,348	8,195	7,022	31,999
Indonesia	7,339	6,176	6,596	6,092	26,202
Thailand	4,440	4,178	3,555	3,838	16,010
Korea, South	1,664	2,188	1,729	1,532	7,112
Vietnam	1,017	817	1,172	1,282	4,288
Japan	1,153	1,184	1,023	1,174	4,535
Turkey	712	786	282	278	2,059
Other	2,260	1,961	3,154	2,446	9,821
TOTAL	212,744	229,763	228,367	211,718	882,592
Calendar Year: 2007					
Country	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	TOTAL
China	68,908	92,722	82,626	68,643	312,899
Pakistan	80,977	93,901	86,320	61,145	322,343
India	16,894	15,817	12,622	10,667	56,000
Taiwan	18,222	17,354	12,794	10,769	59,139
Hong Kong	7,478	8,573	6,821	6,310	29,181
Indonesia	5,646	7,021	4,921	4,216	21,805
Thailand	3,897	4,758	4,068	3,404	16,126
Korea, South	2,768	4,206	3,484	2,500	12,958
Other	5,219	5,431	4,627	5,191	20,469
TOTAL	210,009	249,782	218,283	172,844	850,919
Calendar Year: 2008					
Country	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	TOTAL
China	68,617				68,617
Pakistan	57,481				57,481
India	12,770				12,770
Taiwan	10,507				10,507
Hong Kong	7,081				7,081
Other	18,443				18,443
TOTAL	174,898				174,898

Source: World Trade Atlas

Table 9. China's Monthly Cotton Yarn & Thread Exports

Unit: Metric Tons

Month	2004	2005	2006	2007	2008
January	24,906	23,490	26,322	39,434	37,114
February	32,647	19,406	33,121	27,261	28,436
March	40,241	44,378	53,124	43,847	55,410
April	34,155	45,339	48,898	48,235	
May	33,594	43,642	46,251	49,864	
June	34,402	38,775	44,601	47,980	
July	31,143	34,481	44,321	47,382	
August	30,152	36,940	50,092	50,663	
September	34,799	37,634	45,748	45,760	
October	31,469	32,429	43,383	39,810	
November	33,372	34,724	42,682	39,890	
December	30,811	32,096	41,114	38,956	
TOTAL	391,691	423,334	519,657	519,081	
Marketing Year	Aug/04-Jul/05	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08	
TOTAL	391,691	470,461	527,021		

Source: World Trade Atlas

Table 10. China's Quarterly Cotton Yarn and Threads Exports by Destination

Unit: Metric Tons

Calendar Year:2006					
Country	Jan-Mar	Apr- Jun	Jul-Sep	Oct-Dec	TOTAL
Hong Kong	87,754	105,557	104,724	93,342	391,377
Korea, South	8,343	8,871	8,860	8,196	34,270
Bangladesh	2,601	2,534	4,410	2,636	12,181
Japan	2,573	4,236	3,740	4,042	14,591
Russia	280	903	3,200	3,041	7,424
Italy	1,710	2,822	2,315	3,466	10,313
Myanmar	1,506	1,437	2,126	2,296	7,365
Indonesia	322	1,374	1,255	868	3,819
Singapore	357	1,587	701	1,328	3,973
Other	7,122	10,430	8,830	7,964	34,345
TOTAL	112,567	139,750	140,161	127,179	519,657
Calendar Year:2007					
Country	Jan-Mar	Apr- Jun	Jul-Sep	Oct-Dec	TOTAL
Hong Kong	80,249	106,223	96,728	78,152	361,352
Korea, South	7,072	8,777	8,643	6,629	31,121
Bangladesh	2,076	4,322	4,545	3,175	14,117
Italy	1,968	3,800	3,791	3,470	13,030
Japan	3,426	3,490	3,557	3,462	13,935
Myanmar	1,265	1,701	1,527	1,670	6,163
Indonesia	1,041	2,307	1,251	1,309	5,908
Russia	3,454	1,583	2,937	4,269	12,243
Other	9,991	13,874	20,827	16,520	61,212
TOTAL	110,543	146,078	143,805	118,655	519,081
Calendar Year:2008					
Country	Jan-Mar	Apr- Jun	Jul-Sep	Oct-Dec	TOTAL
Hong Kong	81,509				81,509
Korea, South	10,348				10,348
Bangladesh	5,437				5,437
Italy	3,533				3,533
Japan	3,143				3,143
Other	16,992				16,992
TOTAL	120,960				120,960

Source: World Trade Atlas

Table 11. China's Monthly Cotton Fabric Imports

Unit: 1,000 Square Meters

Month	2004	2005	2006	2007	2008
January	73,589	90,434	78,984	101,379	82,988
February	88,617	69,559	76,877	67,268	56,821
March	110,499	116,262	111,700	107,980	81,949
April	120,592	130,929	119,070	118,344	
May	112,212	110,630	104,379	104,325	
June	114,908	110,427	110,729	97,849	
July	111,746	105,540	107,165	91,328	
August	105,428	105,485	102,195	96,122	
September	110,110	108,576	117,464	94,349	
October	120,197	119,587	114,202	93,816	
November	143,780	130,908	127,051	111,609	
December	158,767	142,123	128,070	109,458	
TOTAL	1,370,445	1,340,459	1,297,886	1,193,828	
Marketing Year	Aug/04-Jul/05	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08	Aug/08-Jul/09
TOTAL	1,370,445	1,315,583	1,277,456		

Source: World Trade Atlas

Table 12. China's Quarterly Cotton Fabric Imports by Country of Origin

Unit: 1,000 Square Meters

Calendar Year: 2006					
Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
China	102,895	139,621	143,097	167,846	553,459
Hong Kong	70,072	96,808	81,841	95,070	343,790
Pakistan	26,773	25,293	35,167	31,939	119,172
Japan	34,244	31,812	25,128	31,856	123,040
Taiwan	11,709	17,064	16,223	18,818	63,813
Korea, South	10,144	10,822	12,868	10,685	44,519
Indonesia	3,219	2,933	3,123	3,261	12,536
Other	8,507	9,824	9,377	9,849	37,557
TOTAL	267,561	334,178	326,824	369,323	1,297,886
Calendar Year: 2007					
Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
China	116,273	141,493	125,251	149,744	532,761
Hong Kong	69,157	87,482	72,420	81,584	310,643
Japan	30,483	27,380	20,493	26,332	104,689
Pakistan	27,719	25,812	31,704	24,044	109,279
Taiwan	12,647	17,013	12,670	13,897	56,227
Korea, South	9,143	9,268	8,153	7,302	33,866
Italy	1,708	2,823	2,688	2,862	10,080
Indonesia	2,687	1,621	1,955	2,108	8,370
Other	6,810	7,626	6,466	7,010	27,913
TOTAL	276,627	320,519	281,800	314,883	1,193,828
Calendar Year: 2008					
Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
China	98,024				98,024
Hong Kong	54,873				54,873
Japan	25,673				25,673
Pakistan	18,294				18,294
Taiwan	10,034				10,034
Other	14,861				14,861
TOTAL	221,759				221,759

Source: World Trade Atlas

Table 13. China's Monthly Cotton Fabric Exports

Unit: 1,000 Square Meters

Month	2004	2005	2006	2007	2008
January	266,477	367,102	436,041	425,476	507,658
February	215,131	284,965	273,382	411,280	370,832
March	357,430	437,819	468,117	392,312	489,945
April	362,893	417,040	448,958	496,096	
May	335,913	385,868	434,668	439,481	
June	351,726	414,540	444,517	424,101	
July	332,007	398,196	428,935	439,774	
August	347,696	419,847	485,664	474,342	
September	399,186	437,275	485,395	507,569	
October	396,667	424,741	471,032	490,385	
November	443,212	441,006	513,640	546,508	
December	465,363	447,263	522,728	513,499	
TOTAL	4,273,700	4,875,663	5,413,079	5,560,822	
Marketing Year	Aug/04-Jul/05	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08	Aug/08-Jul/09
TOTAL	4,273,700	5,104,752	5,506,981		

Source: World Trade Atlas

Table 14. China's Quarterly Cotton Fabric Exports by Destination

Unit: 1,000 Square Meters

Calendar Year: 2006					
Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
Hong Kong	249,551	291,932	286,627	349,036	1,177,147
Benin	73,162	112,604	142,182	163,529	491,476
Bangladesh	79,339	97,816	96,453	114,576	388,184
Korea, South	81,261	85,191	75,855	70,242	312,549
Japan	58,598	59,811	66,107	69,609	254,124
United States	44,629	45,851	47,769	53,641	191,890
Vietnam	34,765	30,737	27,672	47,015	140,189
Thailand	30,797	39,852	67,517	46,627	184,793
Indonesia	34,259	39,092	53,282	46,456	173,089
Ghana	28,564	41,376	43,266	41,796	155,001
Togo	39,785	36,309	34,867	38,851	149,812
Sri Lanka	27,318	21,575	27,139	35,467	111,498
Gambia	19,642	29,794	30,782	31,707	111,925
India	14,817	15,458	19,563	27,976	77,814
Turkey	34,794	26,390	12,183	27,221	100,588
Mexico	16,395	16,667	23,816	22,046	78,923
Other	309,867	337,689	344,914	321,607	1,314,077
TOTAL	1,177,541	1,328,143	1,399,994	1,507,401	5,413,079
Calendar Year: 2007					
Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
Hong Kong	239,613	262,343	258,446	307,260	1,067,662
Benin	132,436	168,298	206,797	200,112	707,643
Bangladesh	82,984	89,574	102,619	131,566	406,743
Korea, South	74,906	82,307	73,327	69,612	300,152
Japan	55,767	49,225	57,299	60,608	222,899
Thailand	42,623	44,222	62,646	56,577	206,067
Ghana	28,221	37,843	46,822	56,517	169,403
Indonesia	38,519	49,157	53,607	56,050	197,333
Vietnam	33,566	41,883	44,718	62,333	182,500
United States	46,852	44,625	40,465	40,277	172,219
Other	453,581	490,201	474,940	509,477	1,928,199
TOTAL	1,229,069	1,359,678	1,421,684	1,550,391	5,560,822
Calendar Year: 2007					
Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
Hong Kong	208,902				208,902
Benin	184,087				184,087
Bangladesh	107,565				107,565
Korea, South	70,551				70,551
Japan	52,124				52,124
Thailand	51,173				51,173
Other	694,033				694,033
TOTAL	1,368,435				1,368,435

Source: World Trade Atlas

Table 15. Cotton Planted Area and Production by Province

Planted Area (1,000 hectares)					
	2004	2005	2006*	2007*	2008*
Total	5,690	5,060	5,900	5,940	5,880
Xinjiang	1,137	1,162	1,900	2,000	2,000
Shandong	1,059	847	930	940	940
Henan	952	782	801	700	690
Hebei	669	573	623	638	615
Anhui	399	376	375	335	350
Jiangsu	409	368	355	345	300
Hubei	408	390	382	418	420
Hunan	167	133	136	156	160
Gansu	68	64	77	79	79
Jiangxi	62	81	88	82	88
* Data before 2006 is based on NSB statistics. Data for 2006-2008 is Post's estimate/forecast based on 2nd Ag Census and analysis.					
Production (1,000 MT)					
	2004	2005	2006*	2007*	2008*
Total	6,320	5,700	7,600	7,800	7,700
Xinjiang	1,783	1,957	2,700	3,000	2,900
Shandong	1,098	846	1,023	1,100	1,140
Henan	667	677	927	726	710
Hebei	665	577	705	726	710
Anhui	412	311	410	418	410
Jiangsu	503	323	425	390	340
Hubei	395	375	490	506	510
Hunan	203	185	230	267	270
Gansu	110	110	160	145	145
Jiangxi	85	90	133	130	130
* Data before 2006 is based on NSB statistics. Data for 2006-2008 is Post's estimate/forecast based on 2nd Ag Census and analysis.					

Table 16. Cotton Tariffs as of January 1, 2008

Description	HS Code	M.F.N. (%)	CT (%)			Gen (%)	VA T
			CA	CP	CC		
Cotton, not carded or combed	5201-0000	T4*				T4	13
Cotton, not carded or combed, including absorbent cotton, in-quota	5201-0000 10	1				125	13
Cotton, not carded or combed, including absorbent cotton, (custom,out-quota,interim)	5201-0000 80	0				0	13
Cotton, not carded or combed, including absorbent cotton, out-quota	5201-0000 90	40				125	13
Cotton, carded or combed	5203-0000	T4				T4	17
Cotton, carded or combed, in-quota	5203-0000 10	1				125	17
Cotton, carded or combed, out-quota	5203-0000 90	40				125	17
Cotton sewing thread, containing 85% or more by weight of cotton	5204-1100	5			0	40	17
Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not for retail sale	5205-1100 to 5205-4800	5	T3	3.5-4.5	0	40	17
Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton,for retail sale	5207-1000 5207-9000	6	5	5	0	50	17
Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing not more than 200 g/square meter	5208-1100 to 5208-5990*	10	5-T3	0	0	70	17
	*Except:						
"	5208-2300	12	8	0	0	70	17

Table 16. Cotton Tariffs as of January 1, 2008 (continued)

Description	HS Code	M.F.N. (%)	CT (%)			Gen (%)	VAT
			CA	CP	CC		
Woven fabrics of cotton, containing 85% or more by	5209-1100	10		0	0	70	17
weight of cotton, weighing more	5209-1200	10	T3	0	0	70	17
than 200 g/square meter	5209-1900	10	T3	0	0	70	17
	5209-2100	12	T3	0	0	70	17
"	5209-2200	12	8	0	0	70	17
	5209-2900	12	T3	0	0	70	17
	5209-3100	10	T3	0	0	70	17
	5209-3200	10	T3	0	0	70	17
	5209-3900	10	T3	0	0	70	17
	5209-4100	10	T3	0	0	70	17
"	5209-4200	10	T3	0	0	70	17
	5209-4300	10	5	0	0	70	17
	5209-4900	10	T3	0	0	70	17
	5209-5100	10	8	0	0	70	17
	5209-5200	10	5	0	0	70	17
	5209-5900	10	5	0	0	70	17
Note: CA: Association of Southeast Asian Nations; CP: China-Pakistan; CC: China-Chile T4: Subject to variable duty rate							

Source: PRC Customs Import & Export Tariff, 2008

Table 17. Cotton Tariff Rate Quotas

Description	HS Code	Initial Quota and Tariff Rate	Final Quota and Tariff Rate	Implementation of Final Quota
Cotton		780,750 MT	894,000 MT	2004
	5201 - 0000	1%	1%	
	5203 - 0000	1%	1%	
<p>Other terms and conditions:</p> <p>1) STE share = 33% (See Note)</p> <p>2) Staging of TRQ for cotton:</p> <p>Year TRQ quantity:</p> <p>2002 - 818,500 MT</p> <p>2003 - 856,250 MT</p> <p>2004 - 894,000 MT</p> <p>2005 - 894,000 MT (China added 1.4 MMT TRQ for 2005)</p> <p>2006 - 894,000 MT (China added 2.7 MMT TRQ in 2006, subject to variable import duty)</p> <p>2007 - 894,000 MT (China added 2.6 MMT TRQ for 2007, subject to variable import duty)</p> <p>2008 - 894,000 MT (China's WTO commitment does NOT mandate a TRQ for CY05 to CY07, but China maintained an identical quantity of TRQ as CY04. In addition to those volumes, based on market demand, China adds TRQs yearly. The added TRQs are subject to a variable import duty)</p>				